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Guatemala

Solid Wood Products

Forest Products

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Report Highlights:

Guatemala's increased demand for forest products provides opportunities for U.S. companies. The United States currently holds 25% of the market in all forestry products excluding pulp and paper. In specific markets, the United States holds 55% of the hardwood market, 13% of the paneled products market and no share of the softwood treated lumber market. The United States has potential to increase its market share in all wood products, but the greatest opportunity resides in the hardwood market. The best prospects for investment opportunities are found in technology transfer to small and medium sized businesses, specialized wood production, recycling, and reforestation.

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SUMMARY

The demand for forest products is at a steady increase in Guatemala, but consumption patterns are shifting. The decreased consumption of chip and log imports is because households are now allowed to harvest firewood for fuel. The slowing of the recent construction boom should also affect the imports of wood products needed for commercial building. Opportunities though, can be found in the hardwood industry. Both U.S. exporters and investors should be able to participate in this market as the Guatemalan industry is not able to develop this sector at this time. The United States is the largest exporter of forestry products to Guatemala with the major competitors being China, Chile, Costa Rica, and Mexico. CAFTA-DR has eliminated the tariffs on several wood products, making the United States a stronger competitor.

Investment opportunities include: technology transfer to small and medium-sized businesses, specialized wood production such as teak and conifer production, recycling, and reforestation. Guatemala is also looking for carbon credit offset investment for their 2.1 million hectares of forest under national protection.

PRODUCTION

Forest Situation & Outlook

The forestry sector contributes 2.5% of Guatemala's Gross Domestic Product (GDP). According to a 2006 government study, when considering environmental services provided by forests, this sector contributes 3.14% to the national GDP.

Forests cover over four million hectares (37%) of Guatemala. Broadleaf varieties account for 3.3 million hectares, with conifers and mixed forests covering only 0.7 million hectares. Most forested land is public property (national, municipal and community) accounting for 2.3 million hectares. The majority of the public land is nationally managed (1.4 million hectares). Privately owned forests account for 1.5 million hectares, with the remainder of the forested land ownership undetermined.

According to the 2004 national forestry inventory, Guatemala's National Forestry Institute (INAB) estimated that 41% of the four million hectares of forest are potentially harvestable. The survey estimates that an average of 717,000 cubic meters (m³) per year was harvested from natural forests for the wood industry, with another portion harvested from forest plantations (376,995 m³). A large component of sustainable management is reforestation. In the last 20 years, 150,000 hectares has been reforested with a potential of reforesting an additional 2.5 million hectares.

The Guatemalan forestry laws and policies support the harvesting, regeneration, and conservation of forest resources. The Forestry Law of 1996 sets apart one percent of the national budget for forestry support. The Forestry Incentive Program (PINFOR), the main incentive program, provides financial support of 5,000 Quetzals (\$650) per hectare per year. This support is applicable to both local and foreign companies and will expire in 2014. Information regarding INAB and the Forestry Law can be found at: <http://www.inab.gob.gt/> (in Spanish).

INAB is a quasi-governmental organization, with participation of the public, private, academic, and community sectors of the country. A study by International Review of Administrative Sciences states that this institution is one of the strongest forestry agencies in Central America (the study is found at: <http://ras.sagepub.com/cgi/content/abstract/72/4/459>). Because the organization has participation from all sectors, and because the policies are approved by consensus, implementation of these policies meets little opposition.

In order to obtain a license to harvest wood, (except for wood for personal consumption), INAB requires a forest management plan. Voluntarily planted plantations and agro forestry systems are exempt from this requirement.

Over 13 million m3 of wood are consumed annually as firewood for fuel. According to INAB estimates, this is the main use for wood in Guatemala, especially in the rural areas, of which less than 30% are harvested legally. The government is promoting sustainable forest management strategies to deal with illegal harvest, but so far has had limited success.

Guatemalans are looking for foreign investment for joint ventures in small and medium sized business operations, and investment in technology. INAB states that foreign investors might be interested in establishing plantations where the ideal weather conditions promote fast growth. An example of this are the teak plantations in Petén, Izabal, and the South Coast (three different geographical areas of Guatemala), where foreign investors are already exporting products from the 20,000 hectares planted in 2006. Conifer production also shows considerable potential in Petén, Alta Verapaz and Izabal.

Due to increased environmental legislation, Guatemala is considering forests as a source of carbon credits, especially in the areas under national protection, estimated at 2.1 million hectares. This appears to be an important agenda item of the new Minister of Environment.

Solid Wood Products Situation & Outlook

There are 502 wood mills and 470 factories in the Guatemalan forestry industry, providing employment for almost 13,000 Guatemalans. This link provides a listing of some of the export/import companies.

<http://www.export.com.gt/Portal/Home.aspx?tabpath=HidExpDir/Products&SubSec=313&Sec=3>

Over the last five years, the demand for solid wood products in Guatemala has increased steadily at a rate of 13% per year. At present, 50% of the wood in Guatemala is exported as raw material and the other 50% as finished product. Half of the finished products are provided by cooperatives and rural associations while the other half comes from wood product companies. Total exports in 2006 were roughly \$70 million.

Yet, the Guatemalan forestry sector faces various challenges. First, volumes are small and do not allow for large scale production. Second, with only a small percentage of the industry mechanized, producers have difficulty supplying products in quantity and of the quality demanded by the international market. The forestry industry has a great need for greater technology transfer, especially for drying and processing such products as toothpick, chips, and sawdust.

In general, the hardwood industry has not been developed and needs more technology to do so. This makes softwood forest products the principal marketed product. Main export products in the last 3 years have been: furniture, doors, construction pieces, seats, and polished wood.

Guatemala's forest products market strategy is in large measure formulated led by "Cluster Agroforestal," which is partially funded by the World Bank and the United States Agency for International Development (USAID). The Cluster belongs to the Guatemalan Exporters' Association (AGEXPORT) which promotes trade shows and exhibitions and aggressively seeks access to new international markets. The wood industry is represented by plantation owners, saw mills, and furniture manufacturers. Most of these are owned independently, although few

companies have full control over the whole production-processing chain. Almost 90% of the wood products are sold directly to the consumers.

TRADE

Overview/Outlook

Guatemala is largely a forest products importer. In 2006 the country imported a total of almost \$724 million in wood products and exported over \$70 million. Paper, paperboards, and articles of paper pulp account for 75% of the total Guatemalan wood and wood products imports. Guatemala imports 100% of its paper and paper products.

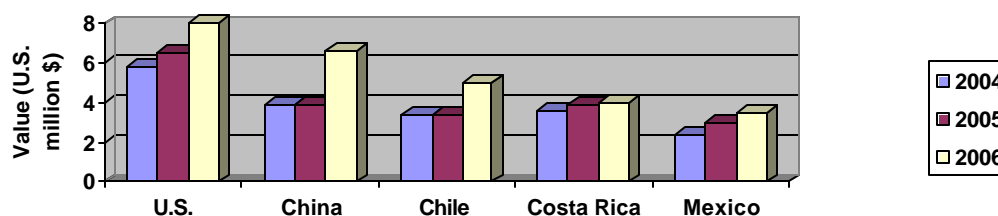
Chip and log imports dropped dramatically in 2006, and the continuous decrease of these imports is directly related to the government's approval of 15 m3 of firewood per year consumption per family. This, according to INAB, corresponds to a total 13 million m3 of wood which otherwise would have to be substituted by 23 million barrels of oil (\$230 million extra in imports to which would further worsen the balance of trade).

Competition

In 2006, the United States was the main supplier of wood, wood products, furniture, paper, and paper products with 35% of the market share. Other trading partners in descending order were Brazil, China, El Salvador, and Costa Rica.

Excluding pulp and paper, the United States had 25% of the market share for forestry product imports to Guatemala. These wood and wood articles also came principally from China, Costa Rica, and Mexico. In general, U.S. exports of forest products to Guatemala are increasing, propelled by hardwood products.

**Top wood products exporters to Guatemala (excluding pulp and paper)
In Value (U.S. million \$)**



CAFTA-DR has allowed for immediate access of wood fiberboard and other ligneous materials. These products once had a 10% import tariff. Plaits and plaits' products also gained immediate access after being previously being assessed at a 15% tariff.

Most business is conducted in Guatemala based on personal relationships. Business executives and government officials place a great deal of importance on personal contact with suppliers. U.S. suppliers should be prepared to have a local representative or distributor and to travel to Guatemala personally.

MARKET SEGMENT ANALYSIS

Construction Sector

The construction sector, after a steady and stable growth period during the 2000's, experienced a 40% increase between August 2006 and August 2007 due to low interests rates and easy credit. The 2006-2007 construction boom resulted in the erection of almost

28,000 homes and buildings in Guatemala City and adjoining municipalities. This phenomenon was unique and the Chamber of Commerce considers that investment in the construction sector will decrease during 2008 as a result of high interest rates in the banking system and projected slower economic growth. Commercial construction is expected to decrease 10% in 2008 compared to the household construction which is expected to maintain a 20% increase.

Imports of hardwood lumber, softwood treated lumber, and panel products (including plywood) increased substantially during 2006.

Hardwood lumber imports increased 30% from \$ 3.76 million in 2005 to \$ 4.87 in 2006. The United States is the biggest supplier of hardwood lumber, but recently has lost market share to Brazil and Mexico due to their lower prices. Both countries doubled their exports to Guatemala from 2005 to 2006. By the end of 2006 the United States still accounted for 55% of Guatemalan imports of hardwood lumber.

Softwood treated lumber imports experienced the highest increase, from \$ 1.78 million in 2005 to \$ 2.62 million in 2006. The United States has no share in this market. The main exporters to Guatemala in 2006 were Chile (\$ 1.7 million), Mexico (\$ 0.3 million), and Brazil (\$ 0.2 million).

Imports of panel products increased roughly 5% from \$ 14.7 million in 2005 to \$ 15.5 million in 2006. The United States had 13% of the Guatemalan market in 2004, but by 2006, U.S. market share dropped to 5.4%. Main competitors for these products are Costa Rica (22% share), Chile (21%), and Mexico (10%). In 2004, the United States held 24% of the plywood market, nearly losing its market share in 2005 because of high prices, but recovered to 10% during 2006. China and Peru are the biggest competitors for the plywood market, increasing their market share to 30% and 22%, respectively, in 2006.

Furniture & Interiors Sector

Most furniture is produced and sold locally. Imported furniture comes mainly from the United States which account for 28% of the market share, followed by Brazil with 21%, and China with 11%. Imported furniture is typically two to three times as expensive as locally produced, but the quality is superior. Raw material used in domestic furniture production is not graded by set standards, therefore, furniture and interior processors lack reliable sources of wood, and many prefer to import these materials.

The quality of local furniture cannot compete at an international level outside of the production of a few companies. Guatemala's furniture marketing strategy is aimed at high-value products directly processed from dedicated and specialized plantations. The Construction Association promotes Furniture Fair Expositions throughout the year. Information regarding local companies and activities, including expositions, can be found at: <http://www.export.com.gt/Portal/Home.aspx?tabpath=HidExpDir/Sector%20Detail&Sec=3>.

OTHER WOOD INDUSTRIAL / NICHE MARKETS

Imports of wood cases, boxes, crates, drums, packing materials, cable-drums, and pallets have increased substantially in recent years. Total imports almost doubled from over \$700,000 in 2004 to \$1.3 million in 2005. Imports in 2006 increased 47% to \$ 1.9 million. The United States had 36% of the market in 2004 and by 2006 had 76% of the market.